

## STRENGTHENING OF RURAL COMMUNITIES

(VE-0126)

### EXECUTIVE SUMMARY

<b>Borrower:</b>	Bolivarian Republic of Venezuela	
<b>Executing agency:</b>	Agriculture and Food Branch (VMAA), through its Rural Development Directorate (DGDR)	
<b>Amount and source:</b>	IDB: (OC)	US\$10 million
	Local:	<u>US\$10 million</u>
	Total:	US\$20 million
<b>Financial terms and conditions:</b>	Amortization period:	20 years
	Grace period:	30 months
	Disbursement period:	30 months
	Interest rate:	variable
	Inspection and supervision:	1%
	Credit fee:	0.75% on undisbursed balance
	Currency:	U.S. dollars chargeable to the Single Currency Facility of the Ordinary Capital
<b>Objectives:</b>	The program will develop an innovative approach for rehabilitating and completing the privatization of small irrigation systems in the states of Mérida, Táchira and Trujillo. This will help strengthen rural communities with economies that rely on those systems.	
<b>Description:</b>	<p>The beneficiaries are middle-income producers with an average of 2.36 hectares of land each, which they hold in private ownership. The rehabilitation and completion of transfer of ownership will benefit: (i) 1,960 of the 25,178 families who operate these systems; (ii) 70 of the 896 systems, and (iii) 4,620 of the 60,000 hectares covered by the small irrigation systems.</p> <p>Seventy percent of the funds will be allocated to rehabilitate small irrigation systems that were constructed 25 years ago. The irrigators, organized in associations, will contribute the labor and will be able to access on a one-time and reimbursable basis to the capital financing facility offered under this program for purchasing the equipment. The irrigators will also perform installation work, thereby reducing the</p>	

high costs commonly incurred by the public sector for these rehabilitation efforts.

Demonstration projects and studies on predefined topics would be available to support actions in microwatersheds in which a number of systems are to be rehabilitated, with the aim of achieving synergy in marketing actions or in environmental management, protection or recovery activities that present clear externalities and cannot be effectively implemented in isolated small systems.

The executing agency will use the technical and administrative services of the Inter-American Institute for Cooperation on Agriculture (IICA), a specialized multilateral organization, to avoid creating institutional structures to address a temporary matter involving rehabilitation and full transfer to the irrigators. The rehabilitation component will be carried out with support from a commercial bank, which will manage a facility on behalf of the executing agency for irrigation infrastructure capital investments.

Three components are included:

1. **Sustainable rehabilitation of irrigation systems (US\$14 million).** Under this component, which is designed to secure the privatization of the systems, the capital for materials and small equipment items for rehabilitation will be financed for the producers. The financing will be on a one-time basis and subject to repayment and maintenance of the value of the principal. In order to ration the limited funds available and ensure achievement of the program's objectives, a competitive mechanism will be used that includes *eligibility* conditions in conjunction with criteria for assigning *preferences* according to a rating system. The *eligibility* requirements include certification of the existence of sufficient water for irrigation, compliance with environmental legislation, confirmation of the private ownership of the land, regularization of the ownership of the systems, and contribution of labor; provision of a joint and several guarantee for repayment of the principal; and organization of the irrigators into registered associations. The *preference* criteria include contribution of capital in cash, proposals for environmental protection, mitigation or recovery actions at farm level, and degree of participation in processing and marketing projects. The rating mechanism will encourage joint proposals from more than one association, if such proposals facilitate studies or small demonstration, environmental or marketing projects at microwatershed or watershed level.

2. **Demonstration projects and studies (US\$2 million).** To strengthen its innovative aspects and take care of externalities that will facilitate future expansion of the approach, the program includes a mechanism for financing, on a nonreimbursable basis, studies and small demonstration projects. The *eligibility* criteria for this component require that the work be done in support of municipalities in which various irrigation systems are being rehabilitated, and that the studies or projects generate knowledge for building consensus on solutions to constraints on marketing, postharvest processing or natural resource management. The component will be executed through municipalities, thereby strengthening the local sustainability of the program's objectives.
3. **Monitoring and evaluation for learning (US\$450,000).** Because of its innovational nature the program requires special monitoring and evaluation of the lessons it generates. Monitoring by third parties unconnected with the executing agency will be financed in order to establish baselines and evaluate experience gained in: (i) technical and economic analysis of projects in components 1 and 2; (ii) compliance and consistency with environmental objectives and regulations; and (iii) follow-up on opinions and views expressed by a panel of social actors in the program area. The external monitoring includes a midterm evaluation and will facilitate adjustments during execution.

The monitoring and evaluation process will make it possible to assess the success of the innovative aspects, verify whether the program environmental guidelines were adopted, whether the social actors are satisfied with the experiment, whether the associations benefited have begun to repay the principal satisfactorily, and whether different national sources have made contributions not included in the program budget. In addition, the evaluation should provide evidence concerning aspects that are not innovative but important for a possible expansion of the approach, such as the effective rate of return of the investments, cost-benefit of environmental management practices, and adverse distribution effects that might have unduly delayed participation by low-income producers.

When the execution of the program is completed, a final evaluation will make it possible to decide on such benefits and modifications as may be necessary for expanding the approach to Venezuela's entire Andean irrigation zone.

**Justification for an innovation loan:**

The rehabilitation approach that the program will demonstrate has not been tried out in Venezuela. While the government has shown interest and interest on the part of producers has also been detected, there is no guarantee of demand that would warrant undertaking rehabilitation of all systems in the Andean area without a prior pilot experiment.

The justification for an innovation loan program is based on the fact that the program will make it possible to gain experience in the sustainable management of irrigation, thereby demonstrating the potential of an approach for overcoming problems in Venezuela's Andean region.

<b>Situation without program</b>	<b>Program approach</b>
Designs made by the public sector, with high costs of installation by contractors.	Irrigator participation in design and procurement will bring costs down below those commonly incurred by the public sector.
Capital equipment/materials donated by the State.	Will recover 100% of the investment cost.
State responsible for system maintenance and rehabilitation.	Will ensure private ownership, registering the systems and making operation and maintenance the irrigators' responsibility.
Environmental programs separate from agricultural development.	Will facilitate integration of productive systems with environmental protection, mitigation or recovery actions.
Actions carried out in isolation or hard to coordinate among public agencies. Municipalities with environmental responsibilities and projects lacking a framework for implementation.	Will coordinate agencies at local level around specific projects that are simple to implement.
Isolated grants of equipment and materials.	Will ensure transparency by announcing in advance the conditions for access to the competitive financing and by guaranteeing the public nature of the financing decisions.

The rehabilitations only need simple designs and can be implemented in less than two months, which will make it possible to obtain the

results sought within the implementation period set for innovative programs.

**The Bank's  
country and  
sector strategy:**

The program contributes in two of the four major thrusts around which the Bank's action in Venezuela is concentrated. By promoting sustainable projects and improving resource use, the productivity and competitiveness of nonpetroleum resources will be increased. In institutional cooperation, a better way of coordinating government actions will be demonstrated, by organizing it on the basis of specific projects proposed by the community. At the same time, the producers will take full ownership of the systems, thus relieving the State of responsibility for periodic rehabilitation.

**Environmental  
and social  
review:**

On 20 October 2000, the Technical Review Group of the Committee on Environment and Social Impact (TRG/CESI) reviewed the project report and made recommendations that have been incorporated in this report and in the Operating Regulations.

The projects that will be financed by Component 1 will not generate significant environmental impacts. The actions consist in replacing pipes, work that does not generate significant negative impacts on the biophysical environment. The program's environmental guidelines will be laid down in an Environmental Manual that will be prepared by the executing agency. The eligibility and preference requirements for these projects are set forth in paragraph 3.12.

The implementation of Component 2 will generate positive environmental and social impacts by supporting the execution of studies and projects that will help improve the environment and marketing and contribute toward understanding of variables important for management of the natural resources in the watersheds.

The implementation of Component 3 will contribute to the evaluation of the rehabilitation experiment by means of external and independent audits for evaluating fulfillment of the environmental objectives and standards. Environmental and social problems detected during implementation, together with any others brought to light by the monitoring and evaluation process will be fed back to the executing agency.

The program will also favor rehabilitation projects involving other agencies, as regards environmental sustainability at farm level.

**Benefits:**

The program will foster accomplishment of long-term objectives by helping to build social consensus for better water and soil management in the watersheds. The methodology that will be tried out will be evaluated and, if need be, adjusted as indicated by the

continuous evaluation process. The main achievement expected is for sustainable programs to be launched for rehabilitating the small-scale irrigation systems throughout Venezuela's entire Andean zone. This will make it possible to strengthen the rural communities that depend on the small irrigation systems.

The main benefits are long-term in nature and they will only be generated if the usual way of handling the urgent problem of small irrigation system rehabilitation is changed, because the usual way is not sustainable, in particular since it reinforces a tendency for the producers to depend on the State instead of consolidating sustainable development of irrigation and of the communities dependent on it.

**Risks:**

*Risk connected with institutional innovation.* The program faces risks due to the solution it proposes at the national level consisting in deconcentrating its implementation and using temporary services for rehabilitating and completing the privatization of irrigation systems. The implementation is simplified by utilizing a contract providing for administrative and technical support for the executing agency, and a trust contract with a commercial bank.

*Loss of interest.* While the program will start with government interest and coordination of public agencies, there is always the risk that this interest might fade, especially in light of the pressing urgency of rehabilitating many irrigation systems. If the government loses interest in the new approach and donates the materials for rehabilitation, the irrigators will not participate in this program. In order to lessen this risk, the program will coordinate the ministries having central responsibility in national, regional, agricultural and environmental planning. The state and local governments have also been leading actors since the design phase.

*Lack of interest in the studies and demonstration projects.* If the studies and demonstration projects are not carried out (Component 2), the program will lack information, additional useful experience and consensus on some topics crucial to its expansion, as could be the case with a projection of water supply and demand. These studies and projects will only be performed if they are requested by the communities, something which might conceivably not happen. The program will assign funds and responsibilities for promoting execution of these studies and projects.

**Special contractual conditions precedent to the first disbursement:**

In addition to compliance with the requirements specified in the General Conditions (Article 4.01 of the Loan Contract), before the first disbursement can be made the executing agency will be required to submit: **(i) evidence that the program Operating Regulations have entered into force (see 2.8); (ii) the contract with the Inter-American Institute for Cooperation on Agriculture (IICA), duly signed (see 3.2); (iii) the contract, duly signed, with a commercial bank for the administration of a trust to be used by the program (see 3.26); and (iv) the implementation plan for the first semester (see 3.9).**

**Poverty-targeting and social sector classification:**

The proposed program does not qualify as a poverty targeted investment either geographically or as regards its beneficiaries.

**Exceptions to Bank policy:**

See the section on Procurement, below.

**Procurement:**

As an exception to the procedure of selecting consultants by open calls for proposals, direct contracting of the IICA is recommended. This agency will perform any type of procurement, contracting of consultants or other activities required, pursuant Bank procedures. This contracting is consistent with the provisions of Chapter GS-403 of the Procurement Manual (see paragraphs 3.2-3.7).

The cost of services to be contracted for with the IICA is estimated at not more than US\$350,000, with the respective contract being for the 30-month execution period.

The ceiling amounts above which procurement for this project will be by international competitive public bidding are: US\$350,000 for goods, US\$3 million for works and US\$200,000 for consultancy services.